



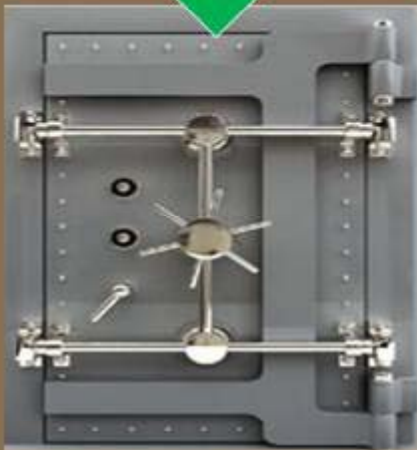
# Arizona Economic Update

*Office of the Arizona State Treasurer Dean Martin*



HON. DEAN MARTIN, TREASURER

OFFICE OF THE ARIZONA STATE TREASURER



**All state funds must be**  
**deposited at**  
**Treasurer's Office**

**FY 08 total was:**

**\$39.10 Billion**



HON. DEAN MARTIN, TREASURER

2

OFFICE OF THE ARIZONA STATE TREASURER





# Daily Revenue



## State Spending

## Invested



HON. DEAN MARTIN, TREASURER

3

OFFICE OF THE ARIZONA STATE TREASURER



# Our Investment Philosophy

**SAFETY**  
before  
**LIQUIDITY**  
before  
**YIELD**



HON. DEAN MARTIN, TREASURER

Pg 4

OFFICE OF THE ARIZONA STATE TREASURER





# *Inside the Trading Room* *A Day In the Life...*



- Last Business Day 2006 \$2.3 Billion in cash
- Example of one trade of over 300 trades executed
  - Out to bid for overnight repo (loan collateralized by US Treasuries)
  - 12/29/06 to mature on 1/2/07
  - The bid winner sent us \$2.346 Billion in US Treasuries
  - 1/2/07 received \$2.3 Billion back
  - We were paid \$1.3 million in interest!



HON. DEAN MARTIN, TREASURER

5

OFFICE OF THE ARIZONA STATE TREASURER



# *Treasurer's FY 08 Performance*

Operating Revenue to the State of Arizona  
State Agencies, Endowment and LGIP Clients

Fiscal Year 2008 Earnings Distributed:

**\$502,385,363**

vs. FY07

**\$484,148,689**

**UP 3.8%**



HON. DEAN MARTIN, TREASURER

6

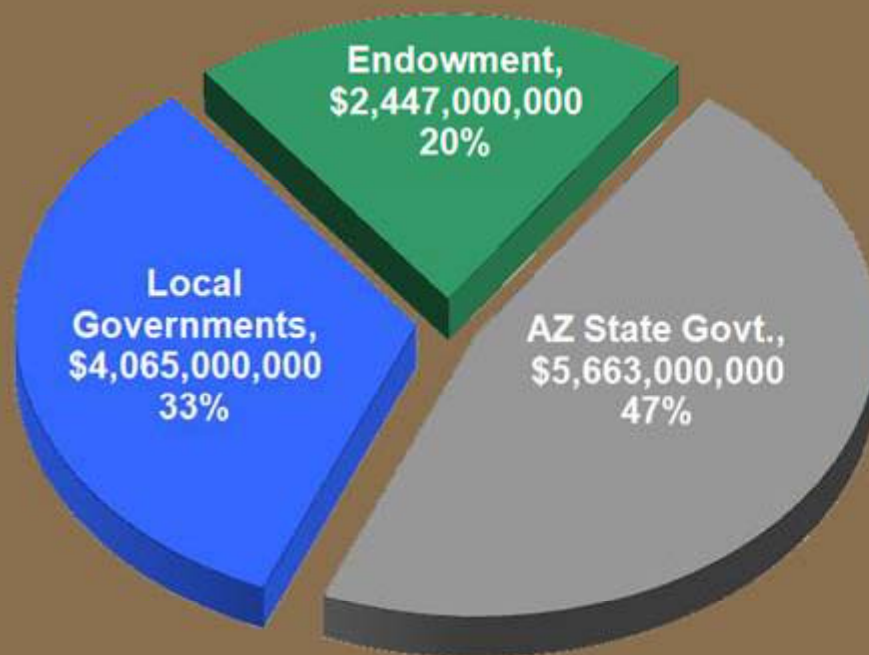
OFFICE OF THE ARIZONA STATE TREASURER



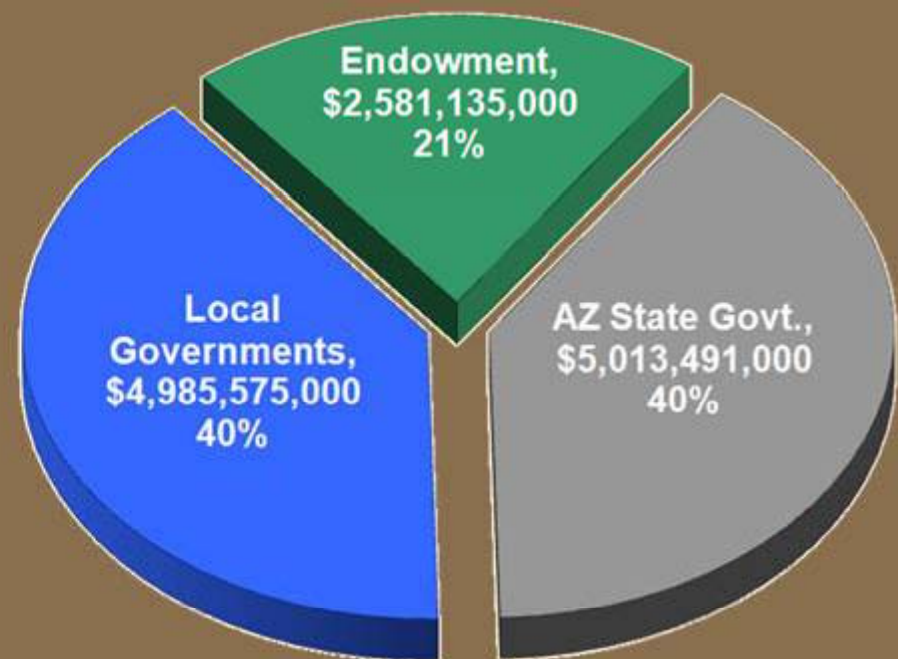


# Assets Under Management (market value)

June 2007 - \$12.17 Billion



June 2008 - \$12.58 Billion



**\$1 Billion in additional Voluntary Investments!**



HON. DEAN MARTIN, TREASURER

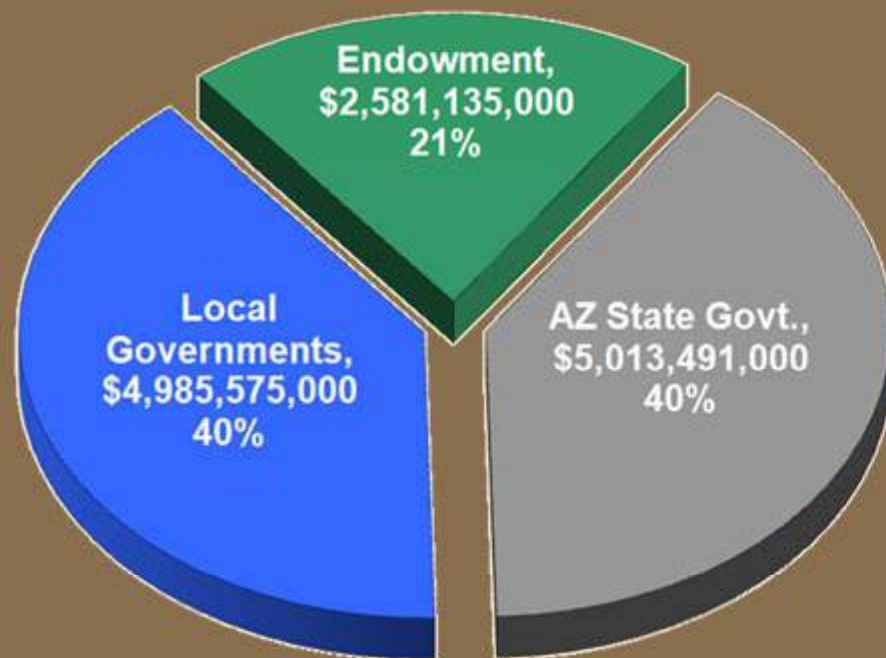
7

OFFICE OF THE ARIZONA STATE TREASURER

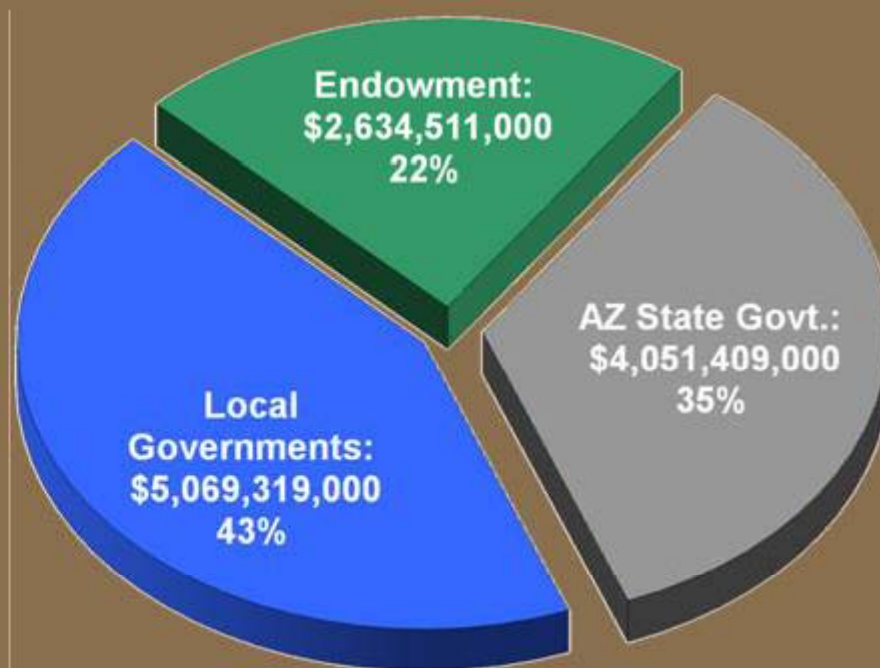


# Assets Under Management (market value)

June 2008 - \$12.58 Billion



August 2008 - \$11.76 Billion



State balances drop by \$1 Billion in two months!



HON. DEAN MARTIN, TREASURER

8

OFFICE OF THE ARIZONA STATE TREASURER





# *Economic Outlook*



HON. DEAN MARTIN, TREASURER

Pg 9

OFFICE OF THE ARIZONA STATE TREASURER



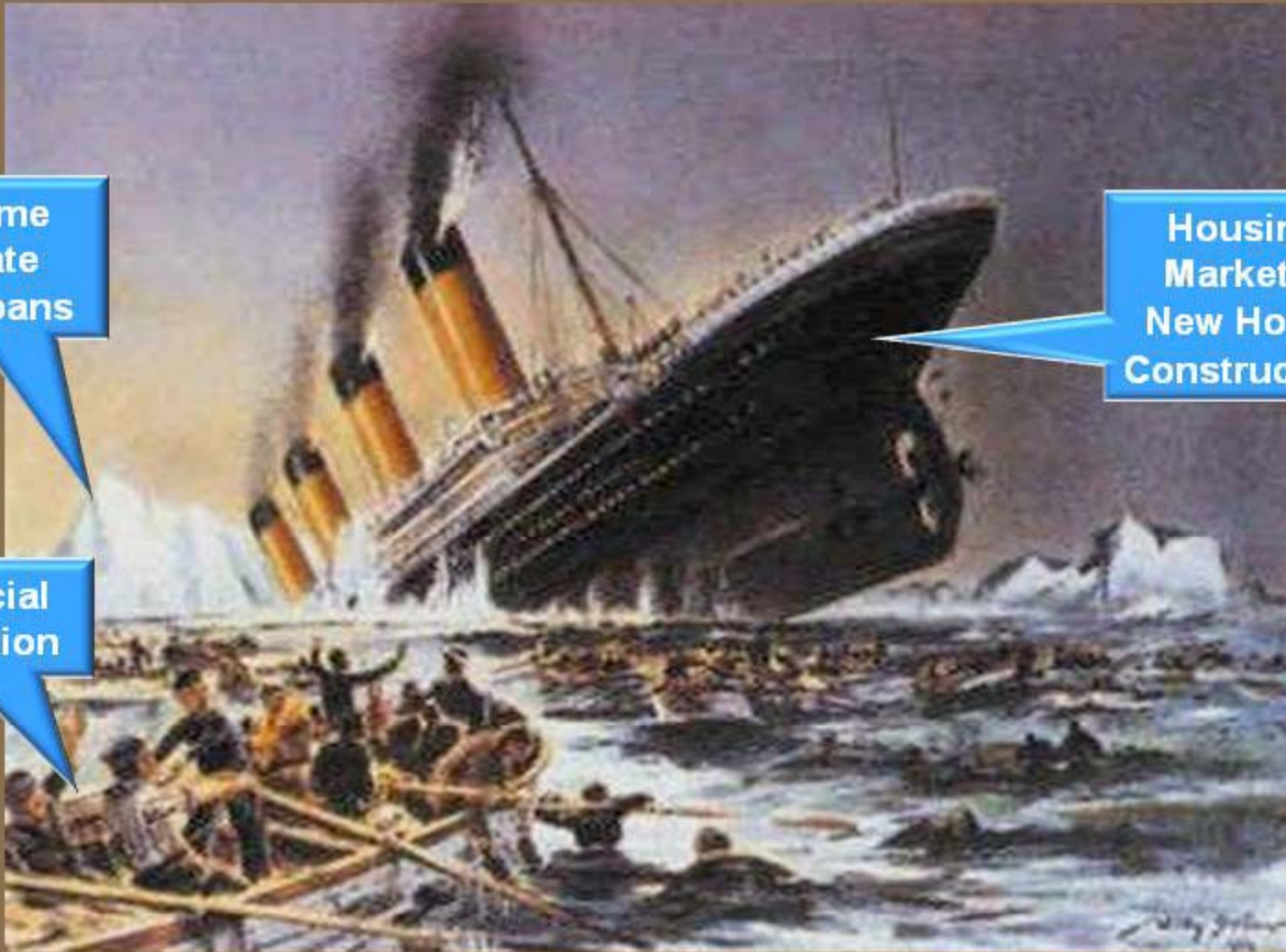


# Housing & Construction Outlook

Sub-prime  
High-rate  
NINJA Loans

Housing  
Market &  
New Home  
Construction

Commercial  
Construction



HON. DEAN MARTIN, TREASURER

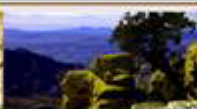
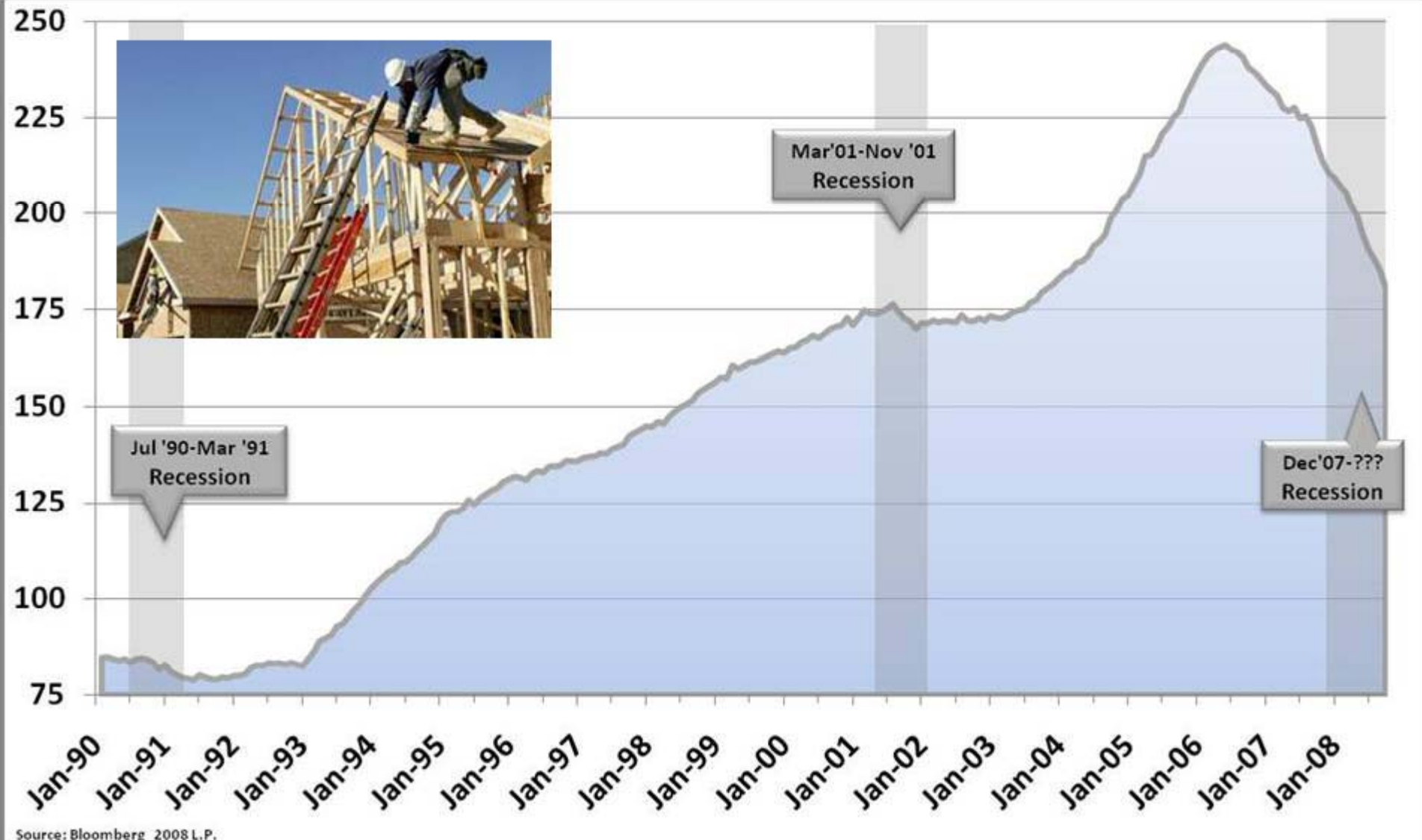
Pg 10

OFFICE OF THE ARIZONA STATE TREASURER

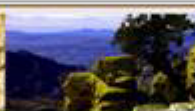
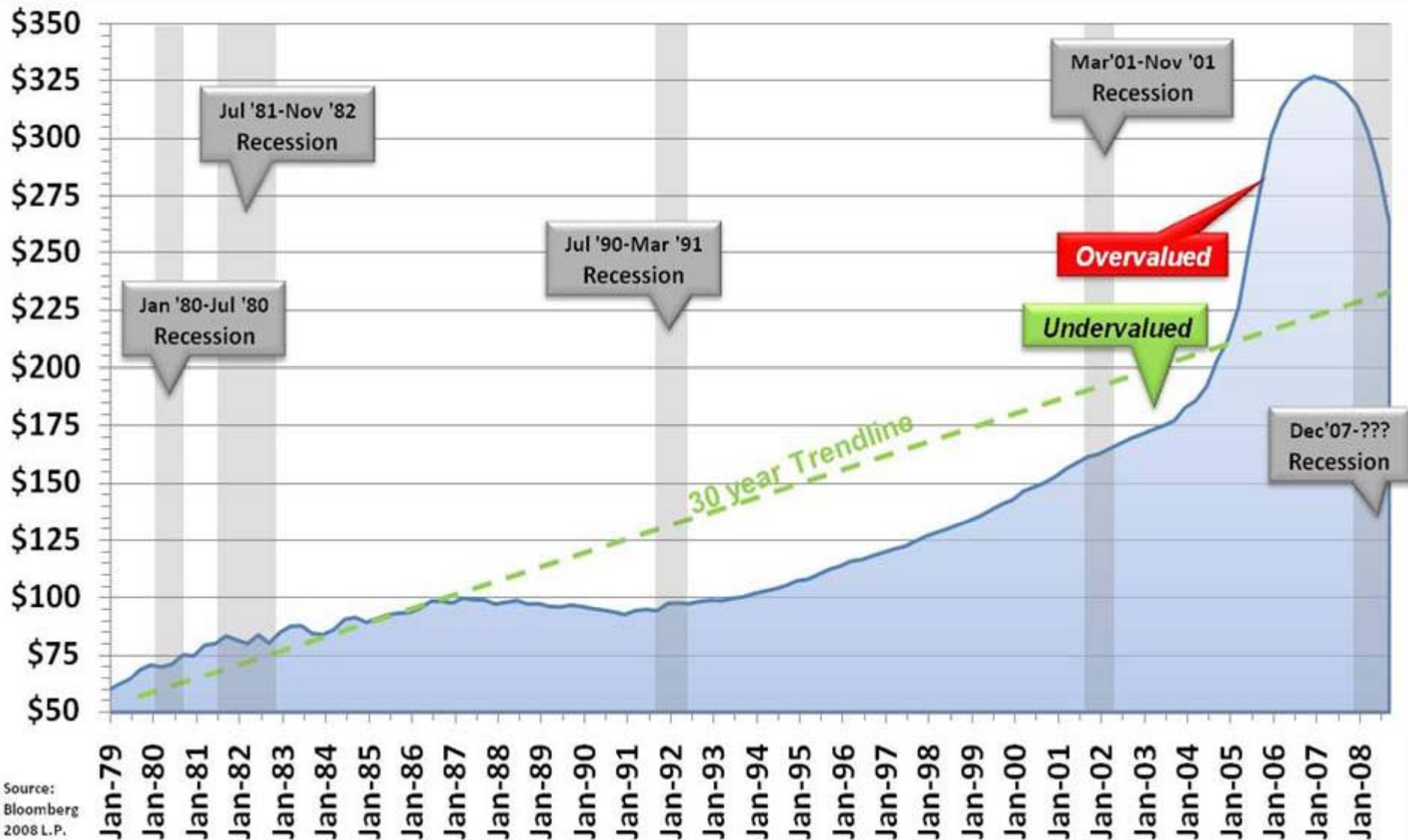




# AZ Construction Employment Still Dropping



# AZ Conventional Mortgage Price Index for Valley





# *Arizona Over Stocked on Homes*



HON. DEAN MARTIN, TREASURER

13

OFFICE OF THE ARIZONA STATE TREASURER





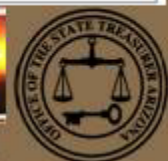
# Over 9% of US Mortgages Distressed



HON. DEAN MARTIN, TREASURER

Pg 14

OFFICE OF THE ARIZONA STATE TREASURER





# Sub-Prime In Arizona

<u>Arizona</u>	CY 2004	CY 2005	CY 2006
Number of high rate loans	62,057	158,460	154,689
% of all mortgages	16	27.4	32.5
Volume in millions	\$6,034	\$21,934	\$25,233
% of volume	10.7	21	27
State Rank	10	5	5

Source: WSJ, Federal Financial Institutions Examination Council, and U.S. H.U.D.



# Sub-Prime In Phoenix

<u>Phoenix</u>	CY 2004	CY 2005	CY 2006
Number of high rate loans	47,388	126,295	121,133
% of all mortgages	16.6	28.7	34.1
<b>As a % of all sales</b>	<b>29.2</b>	<b>70.8</b>	<b>95.7</b>
Volume in millions	\$4,660	\$18,016	\$20,422
% of volume	10.9	22.2	28.1
Metro Rank	5	4	4

Source: WSJ, Federal Financial Institutions Examination Council, and U.S. H.U.D.



HON. DEAN MARTIN, TREASURER

Pg 16

OFFICE OF THE ARIZONA STATE TREASURER







# *Quick and Easy* *Economic Gauge*



# Watch your local Starbucks



HON. DEAN MARTIN, TREASURER

18

OFFICE OF THE ARIZONA STATE TREASURER



*As long as people are still buying*  
*\$4 cups of coffee:*  
*They still have disposable income*



© GreenvilleDailyPhoto.com



***Mild Recession***



HON. DEAN MARTIN, TREASURER

19

OFFICE OF THE ARIZONA STATE TREASURER







## Moderate to Severe Recession



HON. DEAN MARTIN, TREASURER

20

OFFICE OF THE ARIZONA STATE TREASURER





*People can't buy a 99¢ cup of coffee:*



*Depression*



HON. DEAN MARTIN, TREASURER

21

OFFICE OF THE ARIZONA STATE TREASURER

# *Economic Forecast*



HON. DEAN MARTIN, TREASURER

22

OFFICE OF THE ARIZONA STATE TREASURER





# *The Economic Cycle*

The  
Bubble  
Bursts

The  
Crash  
Phase

The  
1<sup>st</sup>  
Turn

Hit  
Bottom

The  
Recovery  
Begins

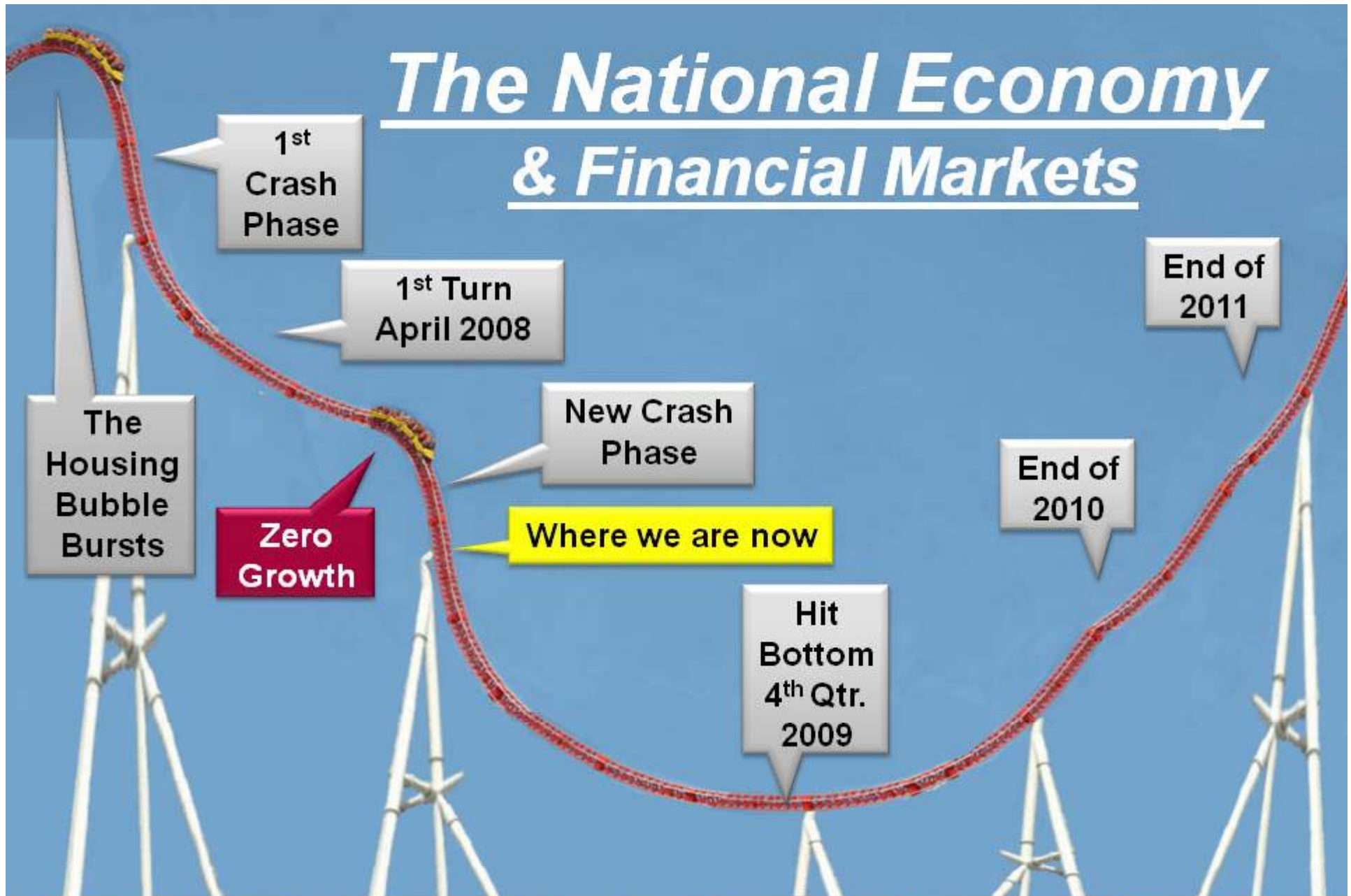


HON. DEAN MARTIN, TREASURER

OFFICE OF THE ARIZONA STATE TREASURER



# *The National Economy & Financial Markets*



HON. DEAN MARTIN, TREASURER



OFFICE OF THE ARIZONA STATE TREASURER



# *The Arizona Economy*

The  
Housing  
Bubble  
Bursts

Zero  
Growth

The  
Crash  
Phase

1<sup>st</sup> Turn  
1<sup>st</sup> / 2<sup>nd</sup>  
Qtr. 2009

Hit  
Bottom  
End  
2009

End of  
2010

End of  
2011

End of  
2012



HON. DEAN MARTIN, TREASURER

OFFICE OF THE ARIZONA STATE TREASURER



# Arizona Housing lags National Housing Market



HON. DEAN MARTIN, TREASURER

OFFICE OF THE ARIZONA STATE TREASURER





# *State Budget Update*



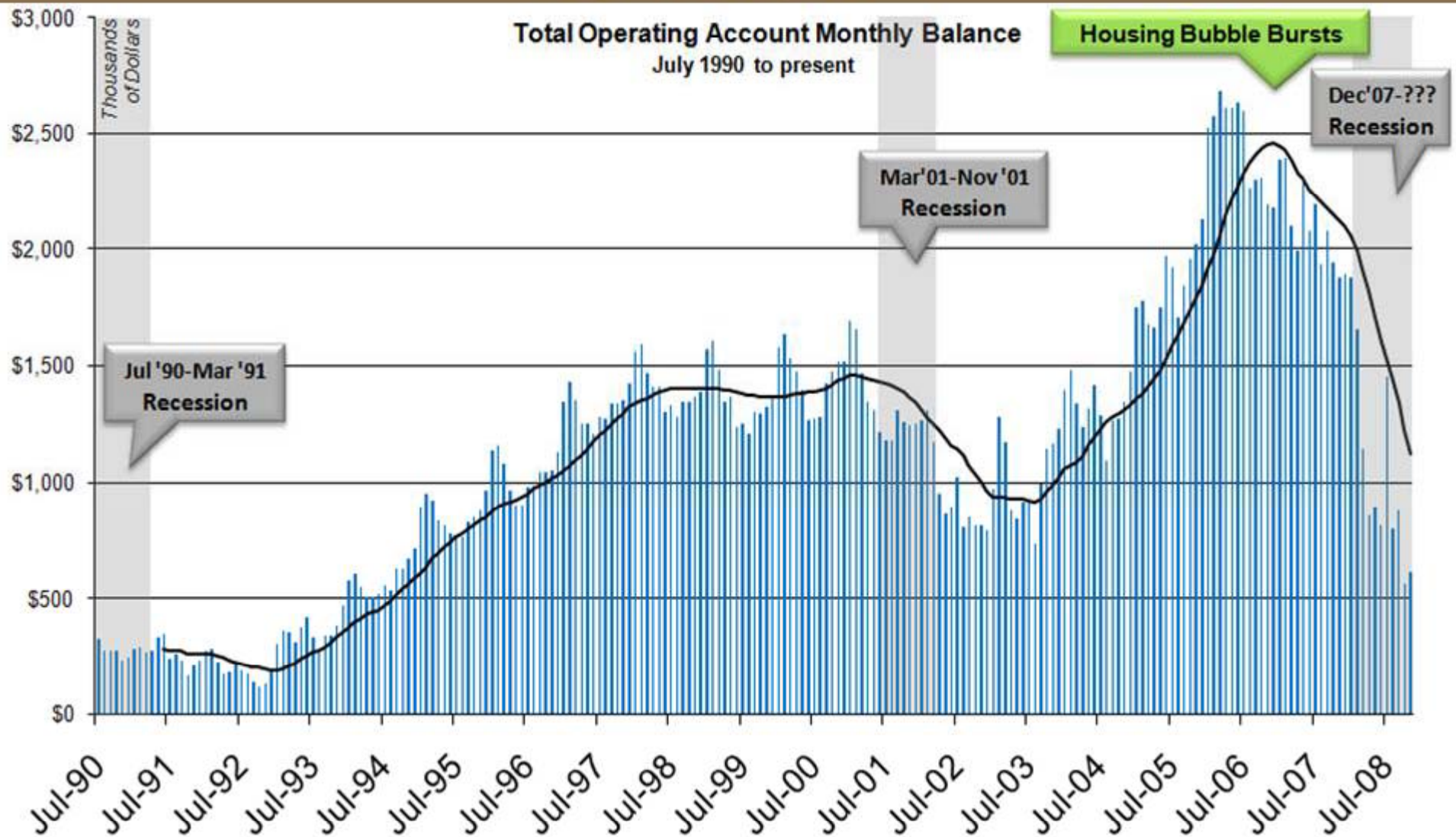
HON. DEAN MARTIN, TREASURER

27

OFFICE OF THE ARIZONA STATE TREASURER

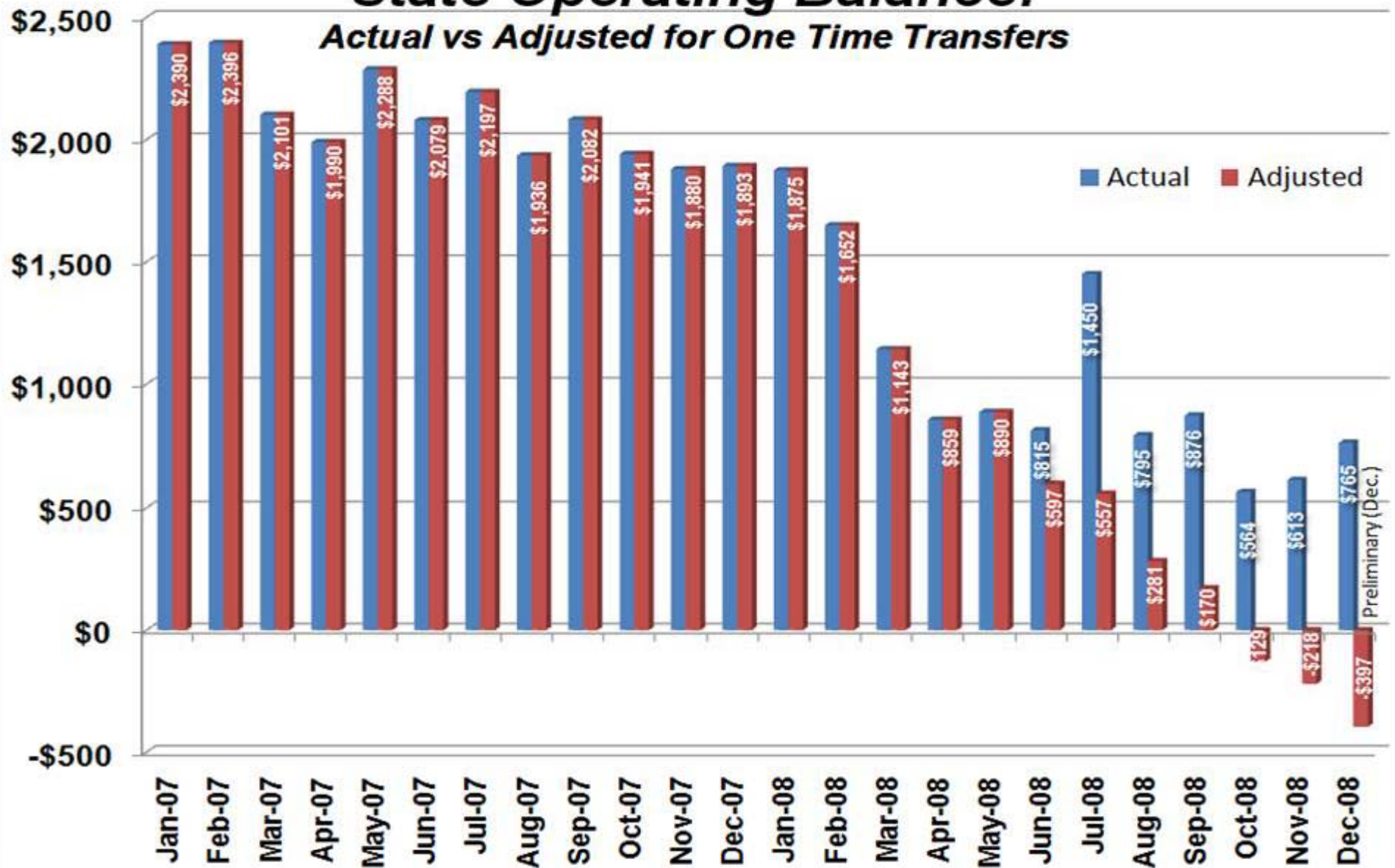


# State Total Operating Account Average Monthly Balance July 1990 to present





# State Operating Balance: Actual vs Adjusted for One Time Transfers



HON. DEAN MARTIN, TREASURER

29

OFFICE OF THE ARIZONA STATE TREASURER



# State of Arizona Operating Cash Balance On A Downward Trend

## Percent Change in Operating Account Balance



HON. DEAN MARTIN, TREASURER

Pg 30

OFFICE OF THE ARIZONA STATE TREASURER





# What went wrong?

'07 Revenues  
**\$9.7 Billion**

'07 spending  
**\$9.6 billion**



HON. DEAN MARTIN, TREASURER

OFFICE OF THE ARIZONA STATE TREASURER

# What went wrong?

## Spending is off the rails '08 Budget

'07 Revenues  
**\$9.7 Billion**

'08 spending  
**\$10.6 billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**



HON. DEAN MARTIN, TREASURER

OFFICE OF THE ARIZONA STATE TREASURER





# What went wrong?

## Spending is off the rails '08 Budget

'07 Revenues  
**\$9.7 Billion**

'08 spending  
**\$10.6 billion**

Revised '08  
**\$10.3 billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**



HON. DEAN MARTIN, TREASURER

OFFICE OF THE ARIZONA STATE TREASURER

# What went wrong?

'07 Revenues  
**\$9.7 Billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**

Governor's  
FY09 forecast  
**5% growth**  
**\$9.98 Billion**

Treasurer's & Leading  
Economists Forecast  
'09 Revenues  
**\$8.8 Billion**



HON. DEAN MARTIN, TREASURER

OFFICE OF THE ARIZONA STATE TREASURER





# What went wrong?

'07 Revenues  
**\$9.7 Billion**

'07 spending  
**\$9.6 billion**

'08 Revenues  
**\$8.8 Billion**

Real '09 spending  
**\$11.65 billion**  
(including accounting  
gimmicks and debt)

Governor's  
FY09 forecast  
5% growth  
**\$9.98 Billion**

Treasurer's & Leading  
Economists Forecast  
'09 Revenues  
**\$8.8 Billion**

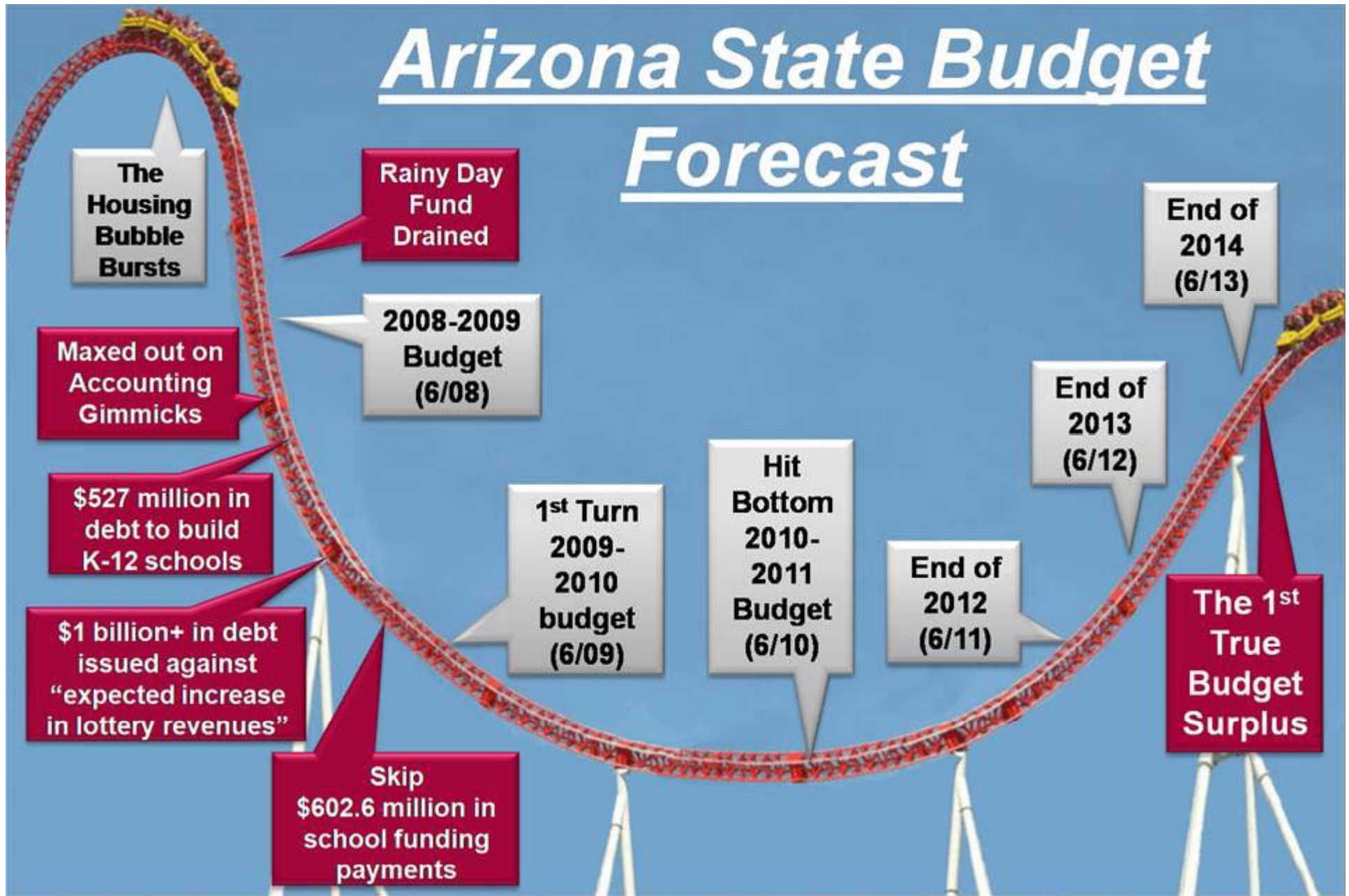


HON. DEAN MARTIN, TREASURER

OFFICE OF THE ARIZONA STATE TREASURER



# Arizona State Budget Forecast



HON. DEAN MARTIN, TREASURER

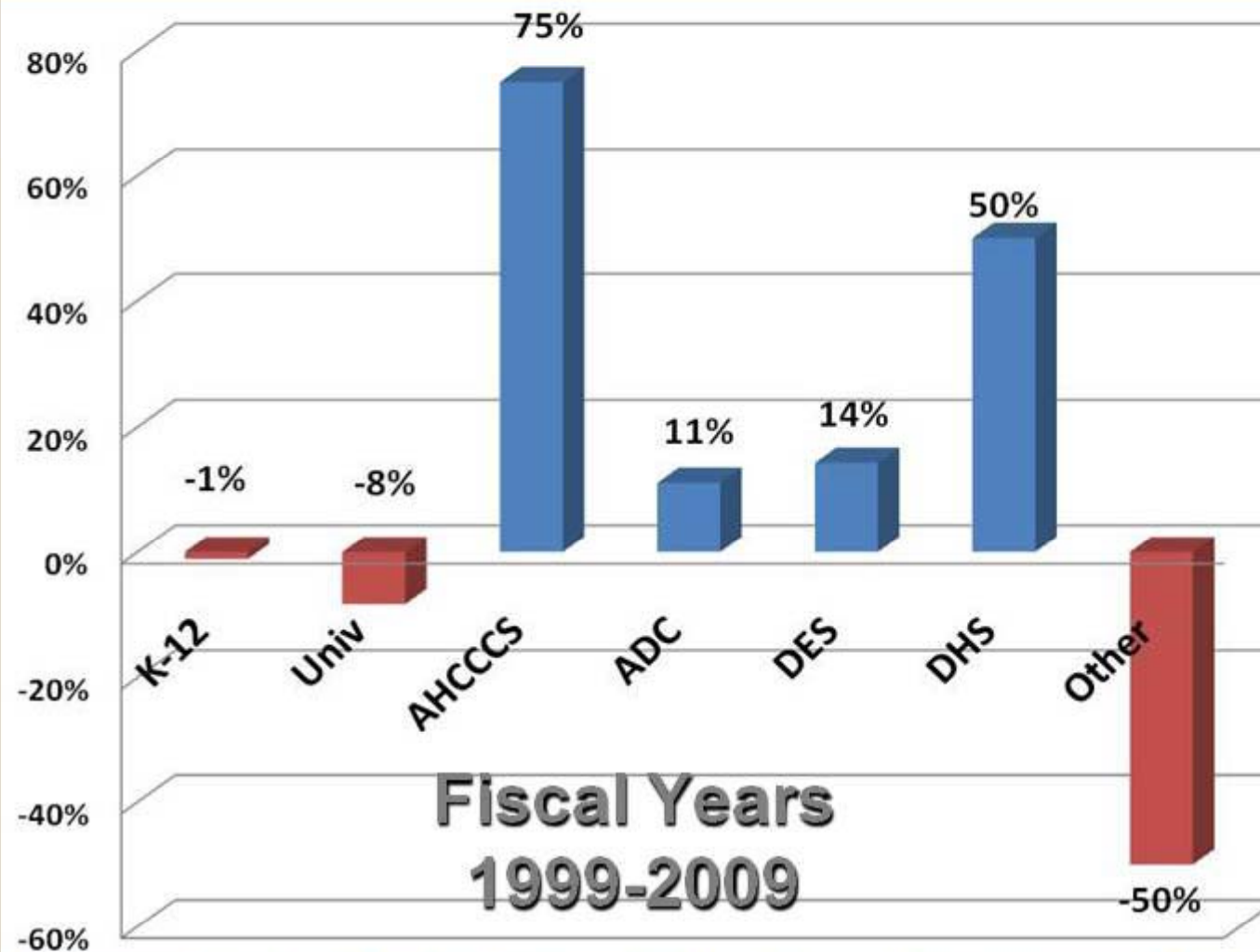


OFFICE OF THE ARIZONA STATE TREASURER



# Where is the money going?

## % Change in "slice of the GF pie"



What are  
*your*  
priorities?



HON. DEAN MARTIN, TREASURER

37

OFFICE OF THE ARIZONA STATE TREASURER



*So how about some  
good news?*



*I just saved a  
bunch of money on  
my car insurance!*



HON. DEAN MARTIN, TREASURER

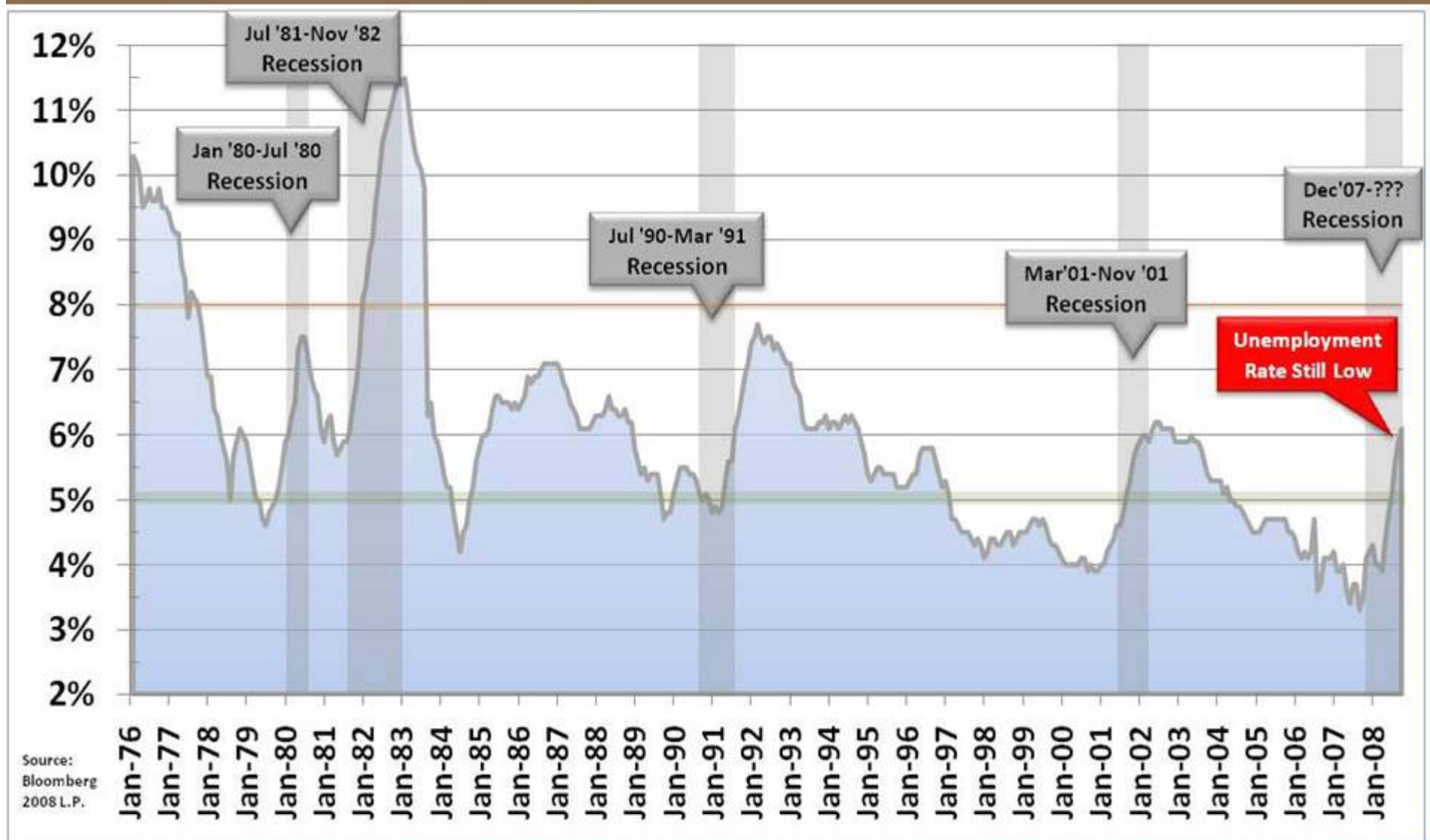
38

OFFICE OF THE ARIZONA STATE TREASURER





# AZ Unemployment Rate Still Low



# Questions?

**THANK YOU**  
***Presentations & Video:***  
***Available online at:***

**[www.AzTreasury.gov](http://www.AzTreasury.gov)**



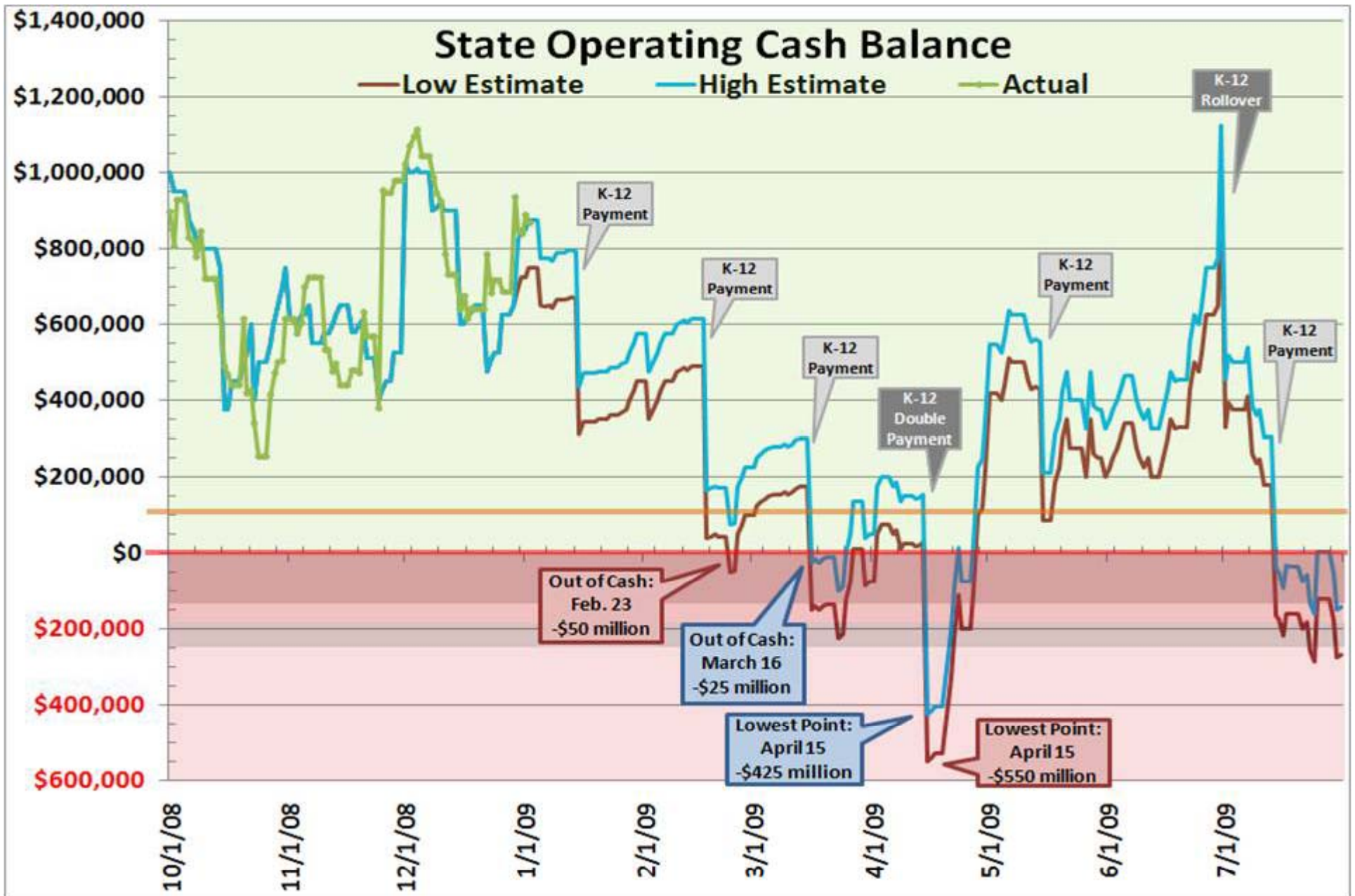
HON. DEAN MARTIN, TREASURER

40

OFFICE OF THE ARIZONA STATE TREASURER





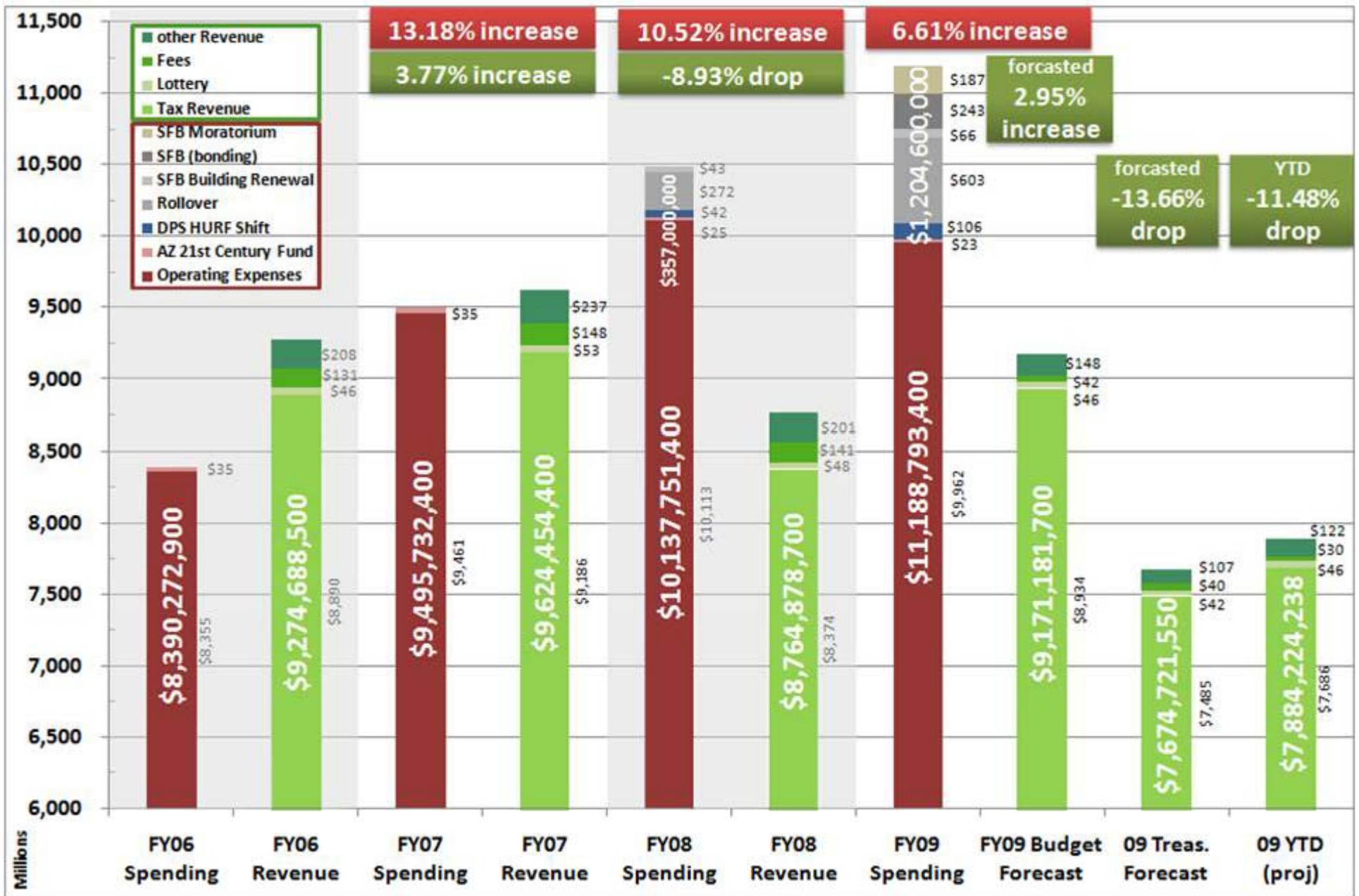


HON. DEAN MARTIN, TREASURER

41

OFFICE OF THE ARIZONA STATE TREASURER





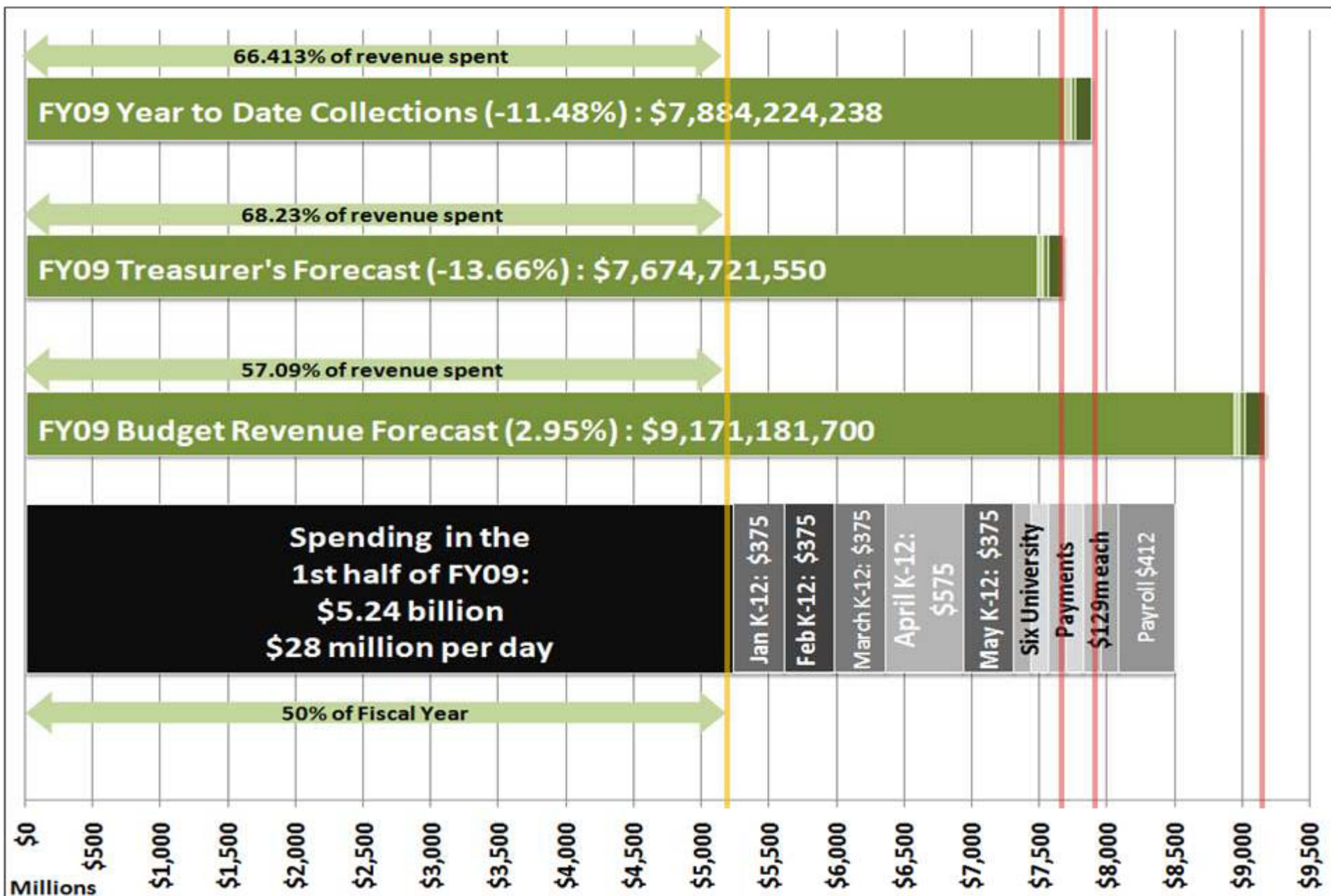
HON. DEAN MARTIN, TREASURER

42

OFFICE OF THE ARIZONA STATE TREASURER







HON. DEAN MARTIN, TREASURER

43

OFFICE OF THE ARIZONA STATE TREASURER

